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Fiscal Note

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SF 524 – Wind Production Tax Credits (LSB 1967SZ)
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Fiscal Note Version – New

Description

Senate File 524 relates to Iowa's wind energy production tax incentives. The Bill:

- Reduces the total capacity limit on projects approved for the 1.0 cent per kilowatt-hour tax credit under Chapter 476B from 150 megawatts to 50 megawatts.
- Increases the total current capacity limit on projects approved for the 1.5 cents per kilowatt-hour wind energy production tax credit (Iowa Code Chapter 476C) from 330 megawatts to 375 megawatts.
- Increases the maximum energy production capacity for energy conversion facilitates other than wind from 20 megawatts to 53 megawatts. These types of projects are also allowed a 1.5 cents per kilowatt-hour production tax credit.
- Adds 25 megawatts per year to the 1.5 cent per kilowatt-hour tax credit under Chapter 476C, beginning 2015 and ending 2020. This adds a total of 150 megawatts of eligible capacity to the 476C tax credit program.
- Alters project completion deadlines for approved projects.
- Allows projects to earn credits for energy generated by the qualified facility and consumed on the premises of the facility.

The Bill is effective July 1, 2011.

Background

The 1.0 cent per kilowatt-hour tax credit under Chapter 476B was created in Senate File 2298 (Appropriations and Miscellaneous Changes Act of 2004) and the 1.5 cents per kilowatt-hour tax credit found in Chapter 476C was created in Senate File 390 (Renewable Energy Tax Credits Act of 2005).

Chapter 476B is available for projects with a capacity of 2 megawatts or more. Projects are no longer required to forgo existing property and sales tax benefits (see Code Sections 427B.26 and 423.3(54)) to receive the 1.0 cent production tax credit. Owners are limited to no more than two qualified projects. The total capacity of all approved projects cannot exceed 150 megawatts. A project must be placed in service before July 1, 2012, to qualify for the income tax credit. Through March 1, 2011, a total of 25.5 megawatts of capacity has been approved for 476B participation.

Chapter 476C is designed for smaller projects. Projects are not required to forgo other property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. The total capacity of all approved projects cannot exceed 330 megawatts. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 330 megawatt limit by 45 megawatts.

Chapter 476C also allows up to 20 megawatts of other types of energy production facilities. Projects are not required to forgo other property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. Projects must be placed in service by January 1, 2012. The Chapter 476C non-wind program has approved projects equal to the current limit and also has a waiting list. The full list exceeds the current 20 megawatt limit by 2.4 megawatts.

The Utilities Board of the Department of Commerce administers both programs and the Department of Revenue administers the tax credits.

Assumptions

Chapter 476B: Chapter 476B project participation will not reach 50 megawatts prior to the existing deadline. Therefore, reducing the current 150 megawatt program limit to 50 megawatts will not reduce tax credit redemptions compared to current law.

Chapter 476C Wind:

- Sufficient projects have been approved to utilize the existing 330 megawatt limit of Chapter 476C projects.
- If the existing limit is increased to 375 megawatts as proposed in the Bill, sufficient demand exists to utilize the higher limit and the additional 45 megawatts will come on line:
  - Year 1 = 23 megawatts
  - Year 2 = 15 megawatts
  - Year 3 = 7 megawatts
- The average capacity factor will equal 31.0%.
- Once earned, tax credits will be redeemed:
  - Initial year = 60.0%
  - Second year = 30.0%
  - Third year = 10.0%

Chapter 476C Nonwind:

- Sufficient demand exists to claim the additional 33 megawatts of nonwind Chapter 476C capacity and that capacity will come on line:
  - Year 1 = 5 megawatts
  - Year 2 = 15 megawatts
  - Year 3 = 13 megawatts
- The average capacity factor for all projects will equal 80.0%.
- Once earned, tax credits will be redeemed:
  - Initial year = 60.0%
  - Second year = 30.0%
  - Third year = 10.0%

Chapter 476C Future Wind Projects:

- Sufficient demand will exist in calendar years 2015 through 2020 to fully utilize the 150 megawatts of new production authorized.
- The average capacity factor will equal 38.0%.
- Once earned, tax credits will be redeemed:
  - Initial year = 60.0%
  - Second year = 30.0%
  - Third year = 10.0%

Fiscal Impact

476B Limit Decrease: Decreasing the maximum capacity eligible for Chapter 476B credits will not have a fiscal impact to the State General Fund since tax credits associated with the reduced megawatt limit will not be utilized under existing law. They will not be utilized because there is insufficient demand.

476C New Projects Impact: Increasing the maximum capacity eligible for Chapter 476C credits will have a fiscal impact since more tax credits will be issued and redeemed than under current law. The impact to the State General Fund may be partially offset by increased local property tax revenue, and potentially, decreased State School Aid appropriations.

Net State General Fund Revenue Reduction: The following table shows the projected net State General Fund revenue reduction associated with the initial increases in Chapter 476C production limits. Those changes add 45 megawatts of wind energy production and 33 megawatts of non-wind capacity to the current 476C program. The impact across all fiscal years is estimated to be $53.0 million.

Revenue Impact - Tax Credit Redemptions
78MW of New 476C Tax Credits
$ in Millions

FY 2012	$ 0.0	FY 2020	$ 5.3
FY 2013	0.9	FY 2021	5.3
FY 2014	2.6	FY 2022	5.3
FY 2015	4.4	FY 2023	4.4
FY 2016	5.1	FY 2024	2.7
FY 2017	5.3	FY 2025	0.9
FY 2018	5.3	FY 2026	0.2
FY 2019	5.3	FY 2027	0.0

Total Fiscal Impact = $53.0 million

The new projects may pay as much as $5.8 million in property taxes over the course of 20 years. Of that amount, $1.4 million represents savings to the State General Fund School Aid appropriation and $4.4 million represents additional local property tax revenue. Whether the property tax revenue and State School Aid appropriation savings occur depends on the property taxation status of the specific properties. Tax Increment Financing, partial exemptions, and ownership by an exempt entity could reduce or eliminate the tax revenue associated with individual projects.

The 150 megawatts of Chapter 476C wind energy production capacity added starting calendar year 2015 will also reduce net General Fund revenue when tax credits earned through those projects are redeemed. The following table provides the projected additional net General Fund revenue reduction associated with those 150 megawatts.

Revenue Impact - Tax Credit Redemptions
150MW of New 476C Tax Credits
Available CY 2015 to CY 2020
$ in Millions

FY 2017	$ 0.0	FY 2025	$ 7.5
FY 2018	0.7	FY 2026	7.5
FY 2019	1.9	FY 2027	6.7
FY 2020	3.1	FY 2028	5.6
FY 2021	4.4	FY 2029	4.4
FY 2022	5.6	FY 2030	3.1
FY 2023	6.9	FY 2031	1.9
FY 2024	7.4	FY 2032	0.6
FY 2025	7.5	FY 2033	0.1

Total Fiscal Impact = $74.2 million

Tax credits earned under Chapter 476C are not refundable, so to the extent the credits are redeemed through individual income tax returns they will impact the calculation of the Local Options Income Surtax for Schools. The Statewide average impact would be approximately 3.0% of the net General Fund impact, but only for those credits redeemed on individual income tax returns.

The Iowa Utilities Board has significant duties related to evaluating and approving projects eligible under Chapter 476C. This Bill will expand and extend the workload of the Board staff.

Sources

Legislative Services Agency Analysis
Iowa Utilities Board
Iowa Department of Revenue
Natural Resources Defense Council

/s/ Holly M. Lyons

April 18, 2011

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.